A Report on Missouri's Economic Condition

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MERIC
DEPARTMENT of ECONOMIC DEVELOPMENT
MISSOURI ECONOMIC RESEARCH & INFORMATION CENTER

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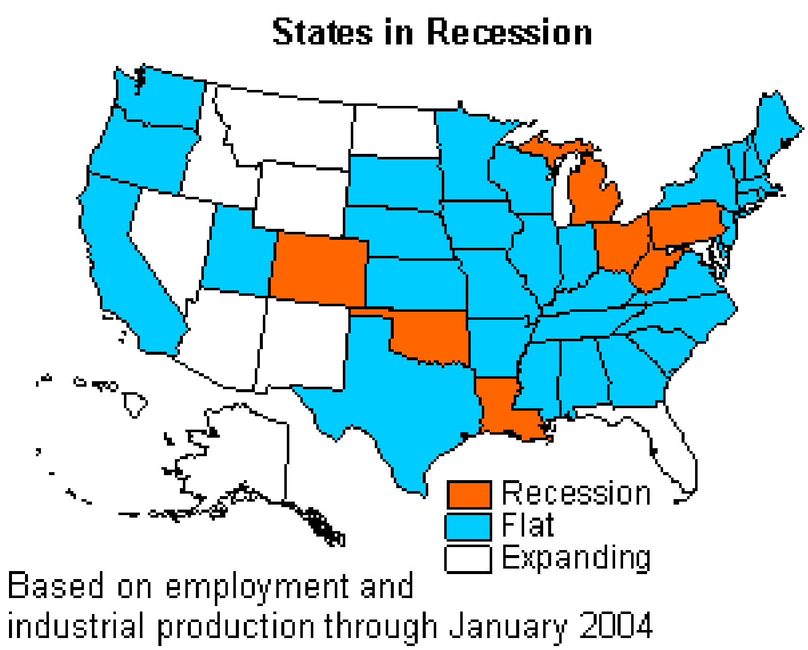
Economic recovery has been underway for more than two years.[1] Typically, considerable economic growth would have taken place during such a period of recovery, with the economy settling into a period of expansion. Since November 2001, however, the economy has been dogged by lethargic conditions. GDP growth was sporadic in the quarters following the economic trough, and labor market conditions remained very sluggish. The term "jobless recovery" was widely used to refer to this situation. It is not just that there was no job growth during the early post-recession period; employment actually continued to drop in the U.S. and in many states.

Recent data have shown a stronger economy, both in the U.S. and in Missouri. With gathering strength in the economy since mid-2003 has come an improving jobs picture. Since July 2003, national employment has grown by 734,000 jobs (0.6 percent), while Missouri employment is up by 29,300 jobs (1.1 percent.). Now that employment has been increasing for some months, there is hope that the "jobless recovery" is over and that a period of substantial recovery is finally occurring. Economy.com, a national economic information and analysis service, has recently determined that Missouri is no longer in recession.[2] About seven states are judged to be still in recession.



Source: Economy.com

[1] The National Bureau of Economic Research's Business Cycle Dating Committee announced on July 17, 2003 that an economic trough had occurred in November 2001. This committee often waits for a long period after an apparent trough to ensure that any subsequent downturn in economic activity is part of a separate recession.
[2] Economy.com's Regional Outlook, March 17, 2004.

National Recession

The economic downturn that began in the U.S. in March 2001 was relatively mild and fairly short in duration.

Subsequent conditions have not been what would have been expected from such a short, mild recession.

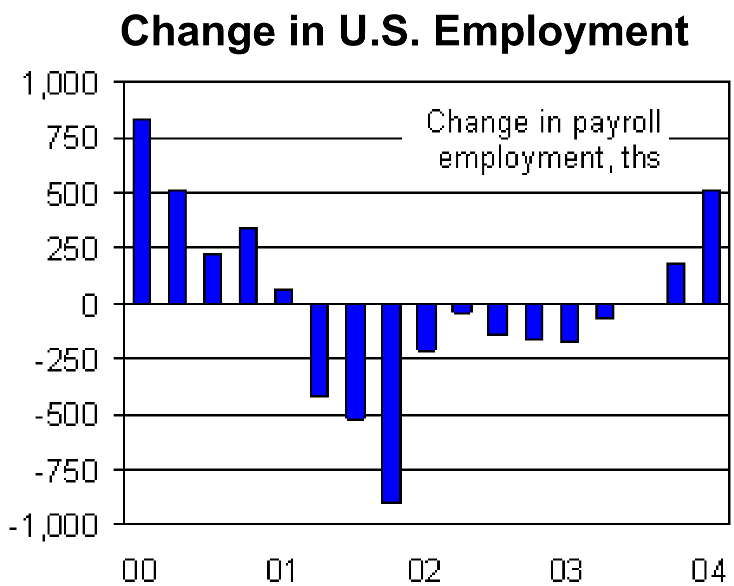
The events of September 11 sent the economy spiraling downward and set in motion forces that have long reverberated through the economy. Travel-related industries, in particular, have still not recovered from that blow. As it turns out, this was only the first of a group of external shocks that have altered the path of economic recovery and contributed to the "jobless recovery."

The second blow to hit the economy was the wave of corporate scandals, starting with the Enron bankruptcy. These events badly damaged investor confidence. How could a prudent investor know how to value a stock, when the company's financial statements could not be trusted? The subsequent plunge in stock values had multiple effects. Consumption was probably reduced as a result of the wealth effect. Tax collections fell as there was less securities-related income to tax. Brokerages and other financial industries were forced to cut back.

The gloomy picture took its toll on overall consumer confidence as well. Other than automobiles (where low interest rates and generous incentives kept sales strong), consumer spending was lackluster at best. Sales remained strongest at value-related retailers, while department stores and other high-end retailers generally suffered, especially through a weak 2002 holiday season.

The third shock was associated with Iraq. While the threat of war loomed over the U.S., both consumers and businesses remained gloomy. Businesses, particularly, seemed unwilling to make major economic moves with the global uncertainty so great. Consumer confidence seemed very sensitive to developments in the war. Some initial news suggesting that the war might be longer than expected caused a drop in confidence, while the subsequent early end to hostilities led to sharp improvement. Continued involvement in Iraq, with American forces suffering deadly attacks daily, has helped keep consumer confidence from rising more sharply.

The nation's economy basically limped forward for about a year and a half, with some economic measures showing reasonable gains. However, those gains did not immediately translate into increased employment, since increasing productivity generally allowed businesses to increase output without adding workers. With 2.7 million U.S. jobs lost between the peak of employment in February 2001 and its trough in July 2003, this period of sustained employment decline represents the longest in modern history – 29 months.



The U.S. economy is now creating just enough jobs to ensure that unemployment does not increase and that the expansion is self-sustaining.

Source: Economy.com and U.S. Bureau of Labor Statistics

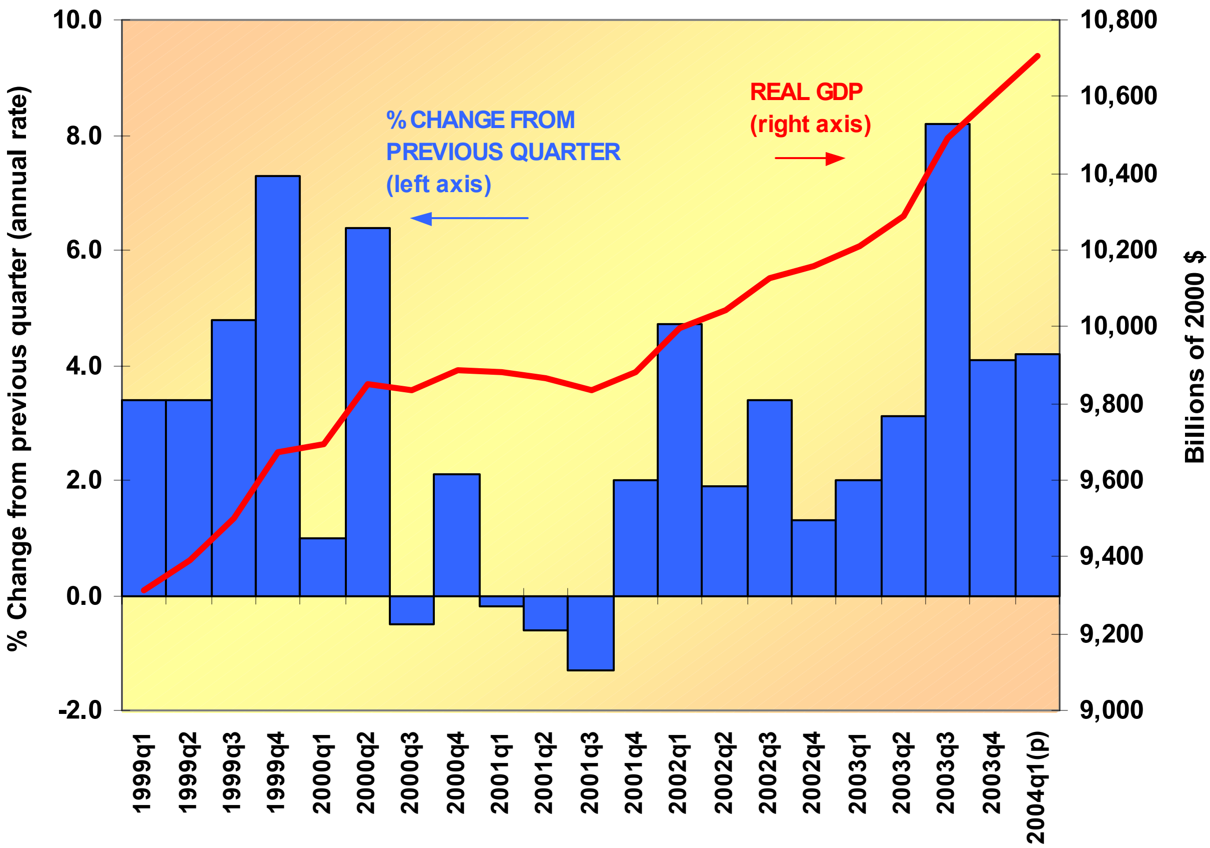
Gross Domestic Product

Gross Domestic Product (GDP) is the broadest measure of economic conditions in the U.S. Output has been expanding since the 4th quarter of 2001. Because there was not a subsequent downturn in this measure, the NBER's Business Cycle Dating Committee finally determined that November 2001 represented a trough in economic activity rather than just a short-lived temporary improvement.

GDP growth following the trough was irregular, with growth in most of the first six quarters being 2 percent or less. Growth began to accelerate in the 3rd quarter of 2003, reaching an 8.2 percent annual rate, the best performance in nearly 20 years. The strong performance came from the private sector and was not particularly dependent on defense or other government spending. There were signs of improvement in business investment, a key but heretofore lacking ingredient in the recipe for continued economic growth.

Growth in the two subsequent quarters (4th quarter of 2003 and 1st quarter of 2004) has been slower. Still growth in these quarters, at 4 percent or better, is strong and high by historical standards.

REAL GROSS DOMESTIC PRODUCT & QUARTERLY CHANGE



Source: U.S. Bureau of Economic Analysis

All in all, the data in the most recent several months represent the best economic picture since the economy started to slow in the latter half of 2000. The consensus forecast now calls for 3 to 4 percent growth for the U.S. economy for the next year, which should be high enough to produce sustained and solid job growth.

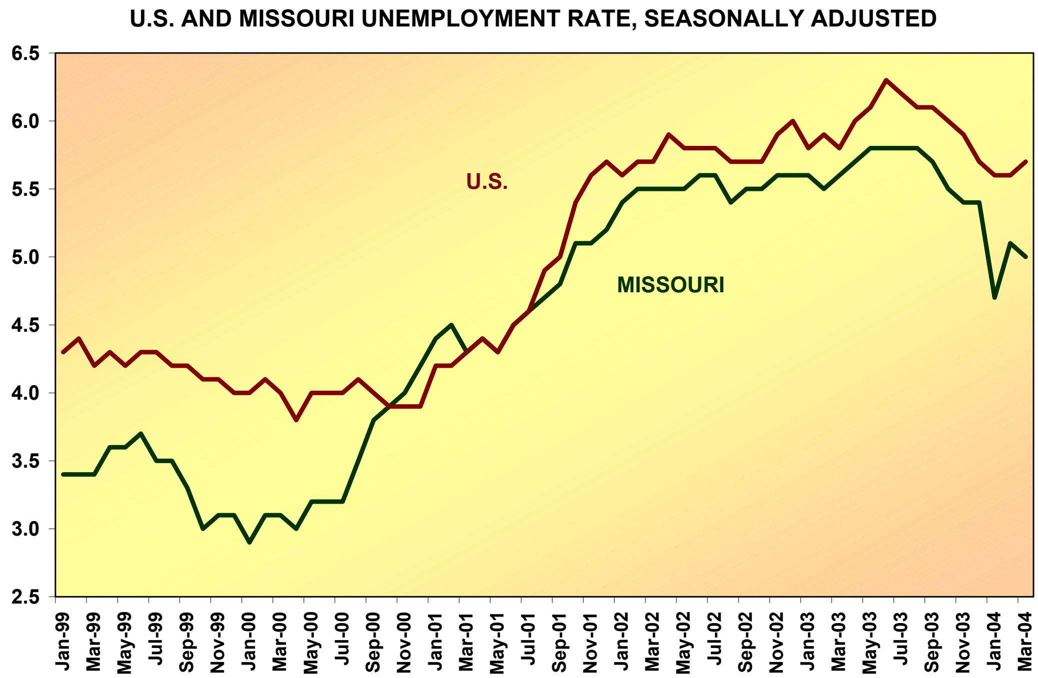
Gross State Product (GSP) is the measure of value added in production by the labor and property located in a state. It is thus similar in concept to GDP and the most comprehensive measure of economic activity in states.

In 2001, the latest year for which data are available, GSP in Missouri was $181.5 billion, making Missouri the 19th largest state economy in the U.S. Adjusted for inflation, Missouri GSP grew by 0.4 percent from 2000, the same as the national rate of growth. Missouri's growth placed it 24th among the states. The recession took its toll on GSP growth, slowing it in most states and causing it to fall in 20 others. Of Missouri's neighboring states, Arkansas, Illinois and Iowa saw GSP decreases.

Economic Indicators

Unemployment

Missouri's unemployment rate has generally been below the U.S. rate, sometimes by a half point or more. The state's rate peaked from May 2003 to August 2003 at 5.8 percent and began to edge down after August. With the exception of the unusually low 4.7 percent rate reported in January, March's rate of 5.0 is at its lowest level since September 2001 (4.8 percent). About 18,000 fewer Missourians are unemployed now than in March 2003. The national rate moved upward to a peak of 6.3 percent in June 2003. It has since receded to 5.7 percent.



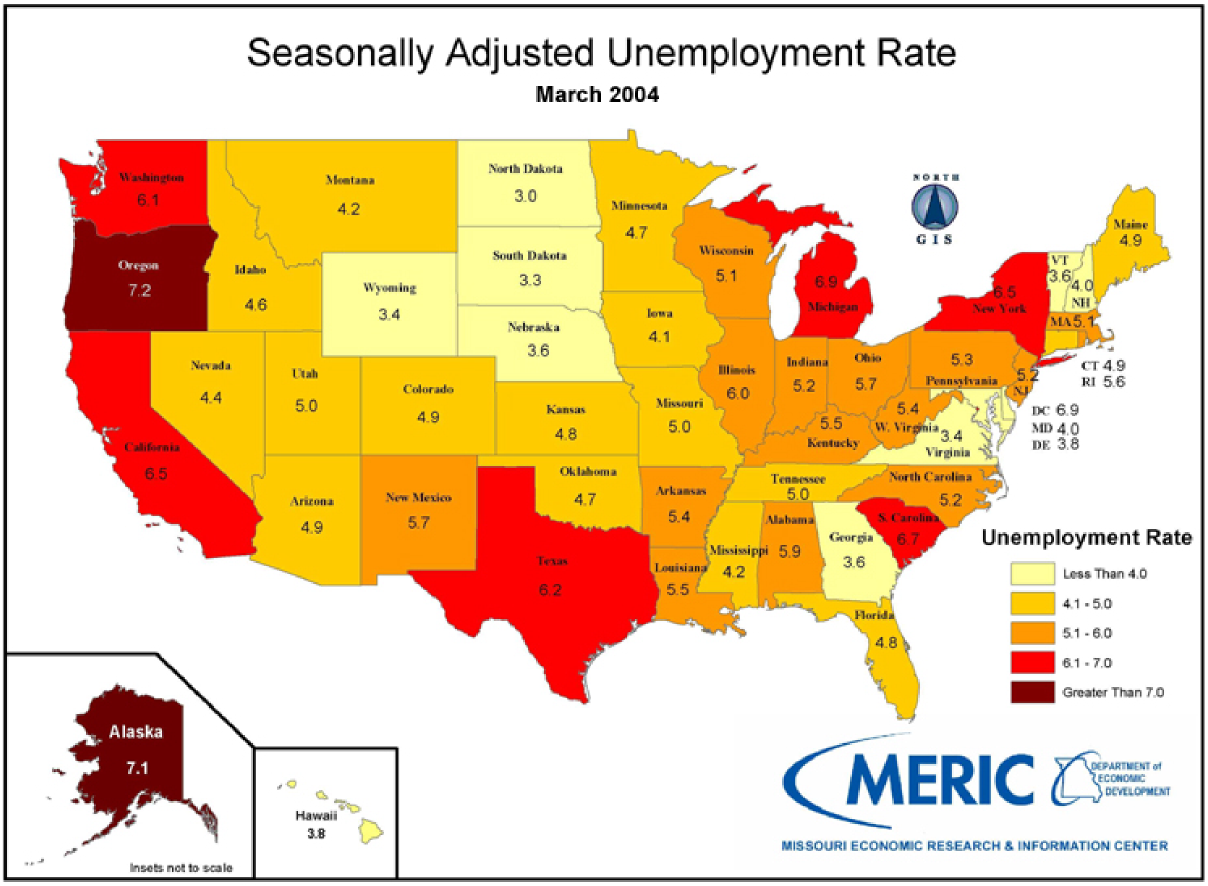
Source: U.S. Bureau of Labor Statistics

Missouri's unemployment rate in March 2004 ranked 25th lowest among the states and the District of Columbia.

Unemployment Rate

The unemployment rate is calculated by dividing the estimated number of unemployed people in the state by the civilian labor force. The result expresses unemployment as a percentage of the labor force.

Labor force and unemployment estimates for states come from a cooperative statistical program between the U.S. Department of Labor's Bureau of Labor Statistics (BLS) and the various states. (MERIC is the BLS affiliate in Missouri.) State data are developed using statistical models. The inputs to these models include monthly state-specific data from the Current Population Survey (CPS – a nationwide survey of households), Current Employment Statistics program (CES – survey of employers), and claims data from the unemployment insurance system.



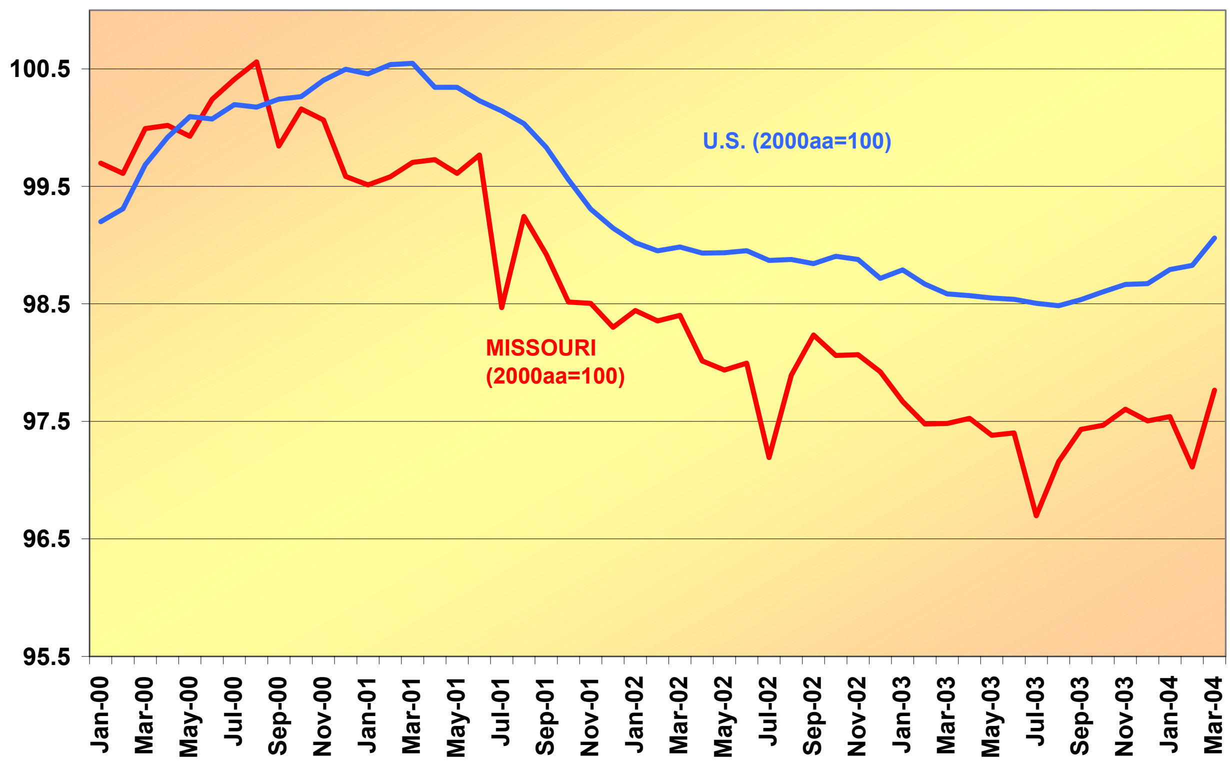
Source: U.S. Bureau of Labor Statistics

Employment

Payroll employment in both the U.S. and Missouri fell for a long time following the beginning of recession in March 2001. There were brief periods when employment appeared to be stabilizing, but these did not last. More recently, employment growth has resumed in both the U.S. and Missouri. Since July 2003, national employment grew by 734,000 jobs, while Missouri employment was up by more than 29,000. Sustained and substantial job growth more consistent with overall economic growth now appears to be occurring.

Since the recession began in March 2001, nonfarm payroll employment has decreased in Missouri by slightly less than 2 percent. Massachusetts has had the largest relative decrease: 6.2 percent. Of Missouri's neighboring states, Illinois' decrease of slightly more than 4 percent was the largest. Nationwide, payrolls are down by almost 2.0 million, or nearly 1.5 percent.

U.S. AND MISSOURI PAYROLL EMPLOYMENT
Index: 2000 annual average = 100



Source: MERIC and U.S. Bureau of Labor Statistics

Index Numbers

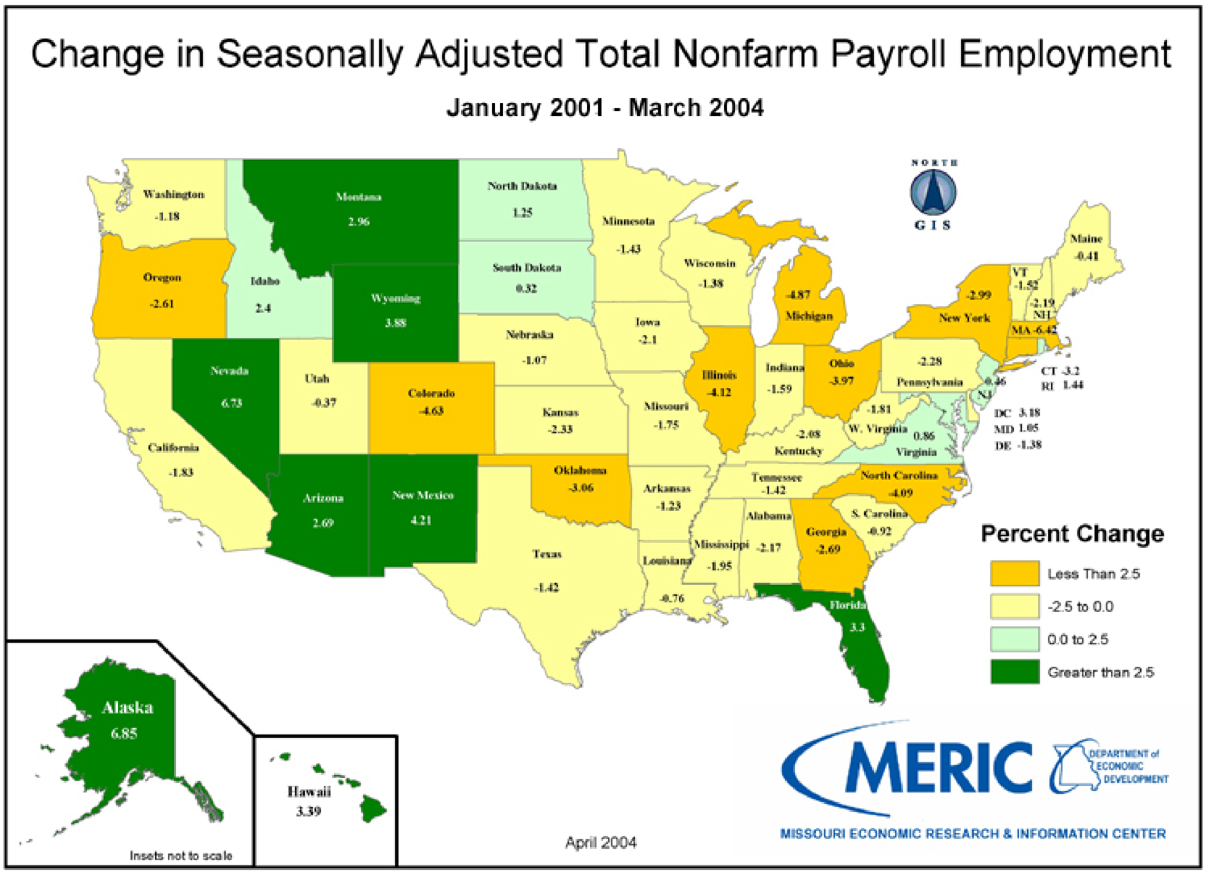
Index numbers are used to indicate relative change, particularly over time. They are especially useful when comparing values where the magnitudes are significantly different. Many measures for Missouri are roughly 1/50 the size of the corresponding national measure. As an example, showing Missouri and national population change on the same chart would not be very useful, since the Missouri line would appear to be almost flat near the horizontal axis while the national line would show more change. To better compare, a base level for each variable is arbitrarily set at 100, and values are represented as a percentage of that base value.

The previous chart shows Missouri and U.S. nonfarm payroll employment data converted to index numbers, where the annual average value of each in the year 2000 is expressed as 100. (Index numbers for each observation are calculated by dividing their actual value by the 2000 annual average and multiplying by 100.)

The chart shows Missouri employment decreasing more rapidly than national employment between late 2000 and mid-2003. Data for 2003 show Missouri employment to have dropped to about 97.5 percent of its value in the base year 2000, while national employment has remained near 98.5 percent of its 2000 value. Recently, both U.S. and Missouri employment have begun to increase, with Missouri employment having grown more rapidly, on average, since the July 2003 trough of employment.

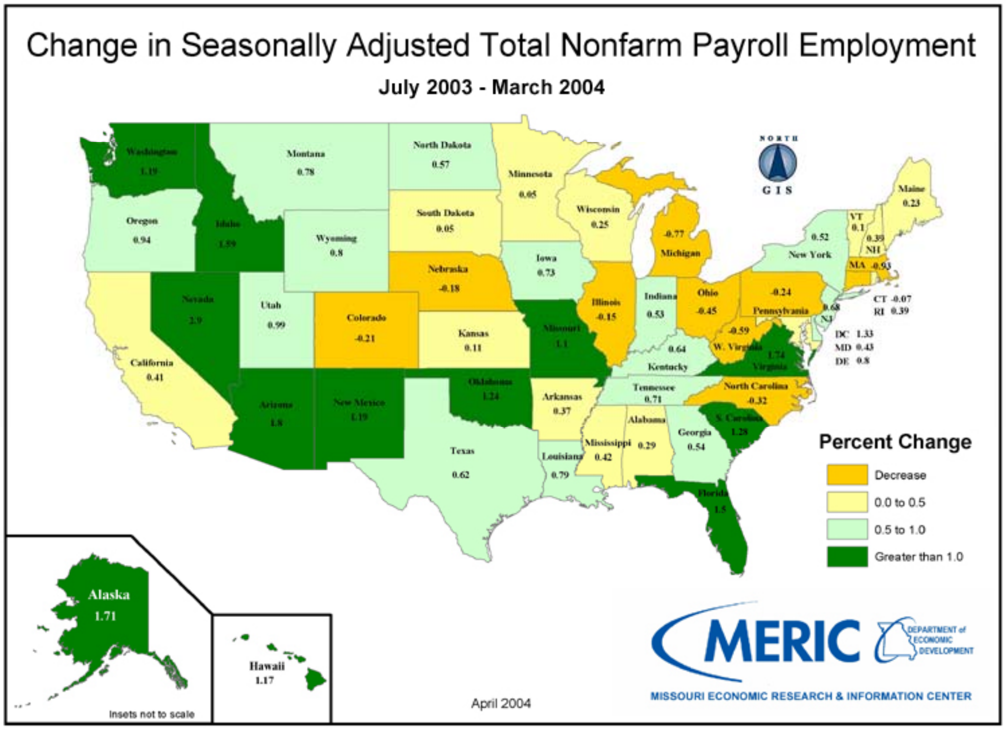
Comparing Missouri's employment changes to other states continues to be a valuable way to analyze our state's economic condition. The majority of states experienced at least some employment loss associated with the national recession. There has been considerable variation in how states were affected by the recession and different shocks to the economy. Similarly, there has been considerable variation among states in how soon they were able to resume employment growth and how strong that growth was.

Examining different time periods provides a comparison of how Missouri's employment has changed through the recession and recovery. From January 2001 to March 2004, Missouri's total nonfarm employment decreased by 1.75 percent, or 47,900.

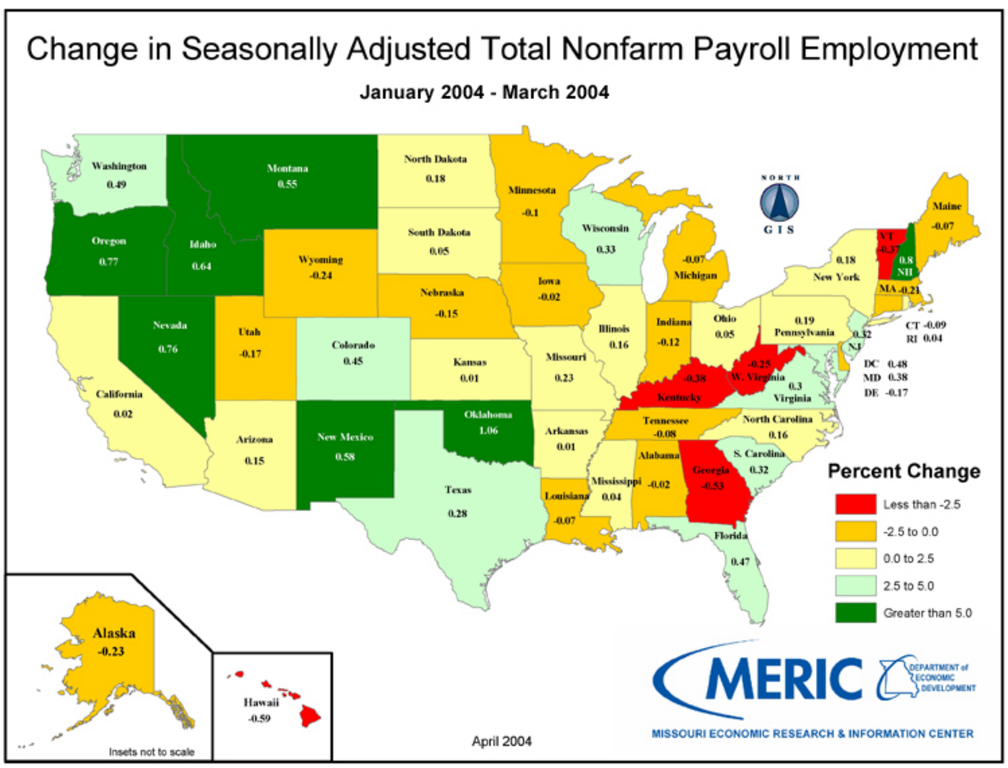


Source: U.S. Bureau of Labor Statistics

From July 2003 to March 2004, employment in the state grew by 1.1 percent, or nearly 30,000, placing Missouri 9th among the states for job growth during that period. U.S. employment grew by .57 percent from July 2003 to March 2004.

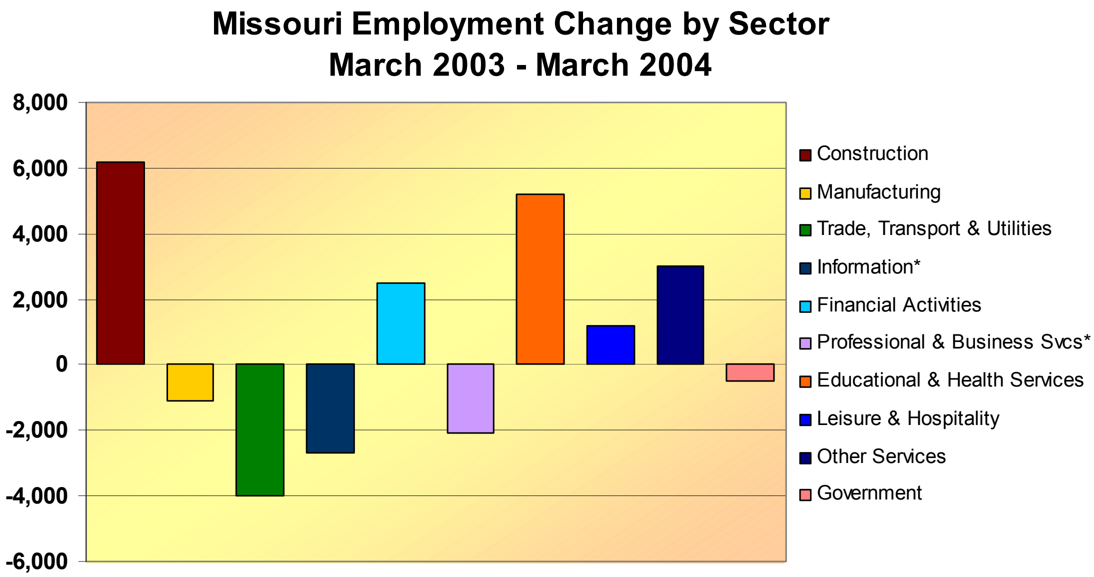


About 30 states have had net employment growth since the start of 2004. Missouri's employment growth of 0.23 percent puts it in the top third of states, in terms of job growth since the beginning of the year.



Source: U.S. Bureau of Labor Statistics

Over the past year, employment declines in Missouri have occurred in trade, transportation and utilities (including air transportation); information; professional and business services; manufacturing and government. Some industry groupings have reported employment growth in the past 12 months, notably construction; educational and health services; other services; financial activities; and lesiure and hospitality.



**Data in these sectors not seasonally adjusted. Natural Resources and Mining was unchanged.*

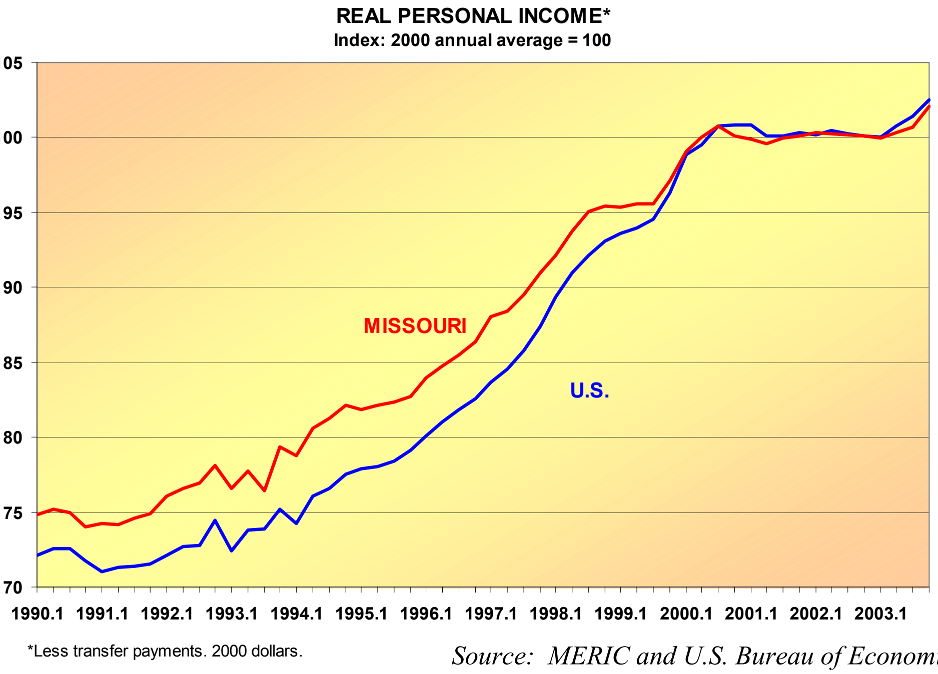
Source: MERIC and U.S. Bureau of Labor Statistics

Personal Income

Personal income is a broad measure of economic activity and one for which relatively current data are available, especially at the national level.

Personal income includes earnings; property income such as dividends, interest, and rent; and transfer payments, such as retirement, unemployment insurance, and various other benefit payments. It is a measure of income that is available for spending and is seen as an indicator of the economic well-being of the residents of a state. Earnings and wages make up the largest portion of personal income.

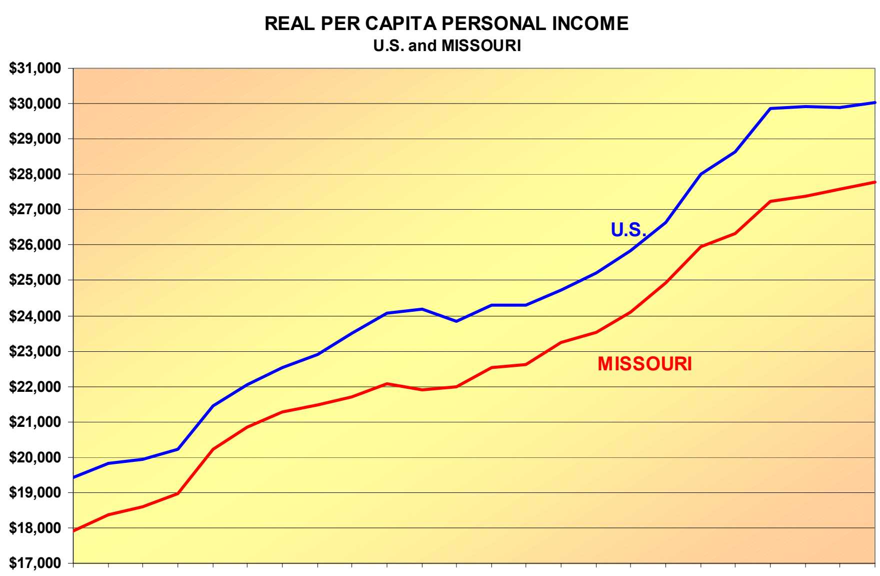
To show the vastly different levels of total personal income for the U.S. and Missouri on the same chart, these data have been converted to index numbers.



Source: MERIC and U.S. Bureau of Economic Analysis

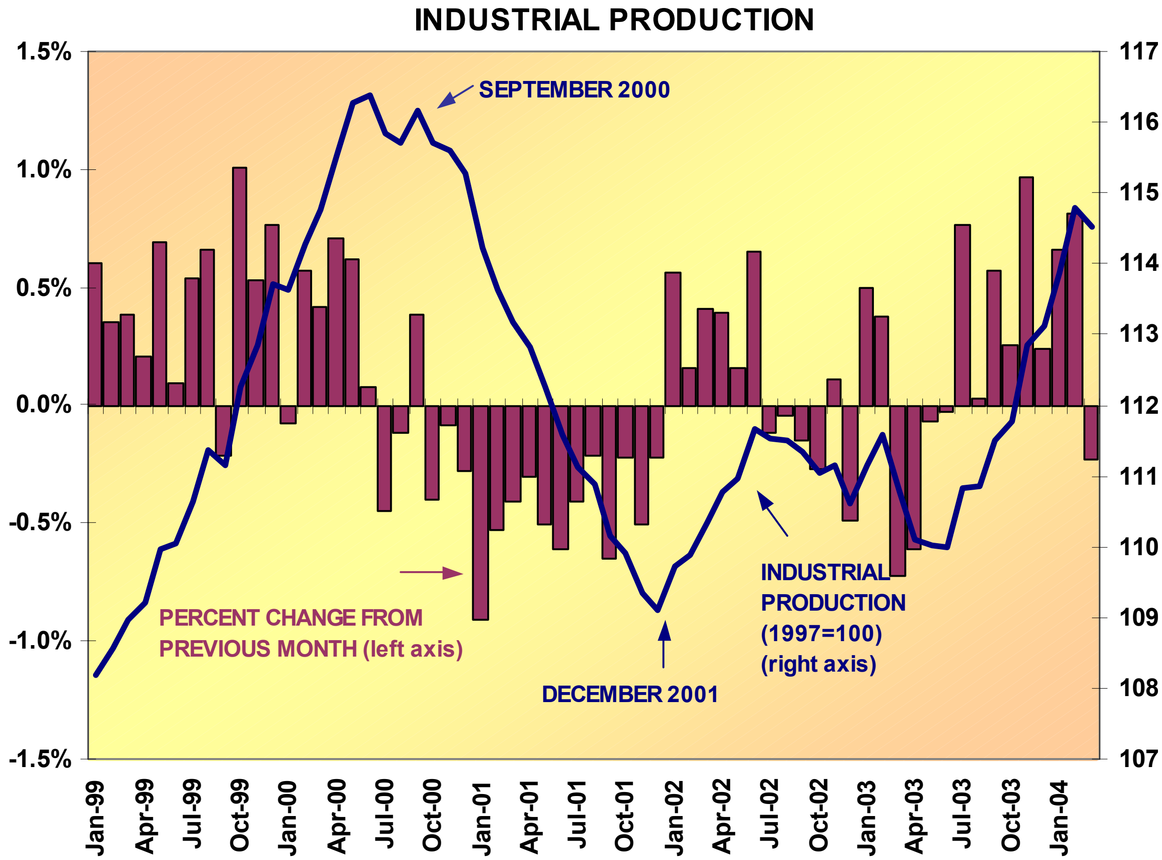
The above chart shows a comparison of Missouri and U.S. growth in real personal income (less transfer payments). The year 2000 has been selected as the base year. In the period since 2000 (generally reflecting the recession and a short period before), real personal income was essentially flat in both Missouri and the U.S. However, the most recent quarters have shown some steady growth. Missouri's personal income has generally moved similarly to that of the nation.

Comparing annual average data, Missouri total personal income grew by 3.2 percent between 2002 and 2003, compared to the national growth rate of 3.4 percent. Per capita personal income grew by 2.6 percent in the state between 2002 and 2003, while the national growth rate was 2.3 percent.



Manufacturing & Industrial Vitality

Industrial production in the U.S. is a measure closely linked to the manufacturing sector. Industrial production began to drop after September 2000 and fell continuously for more than a year before bottoming out in December 2001.



Source: Federal Reserve Board

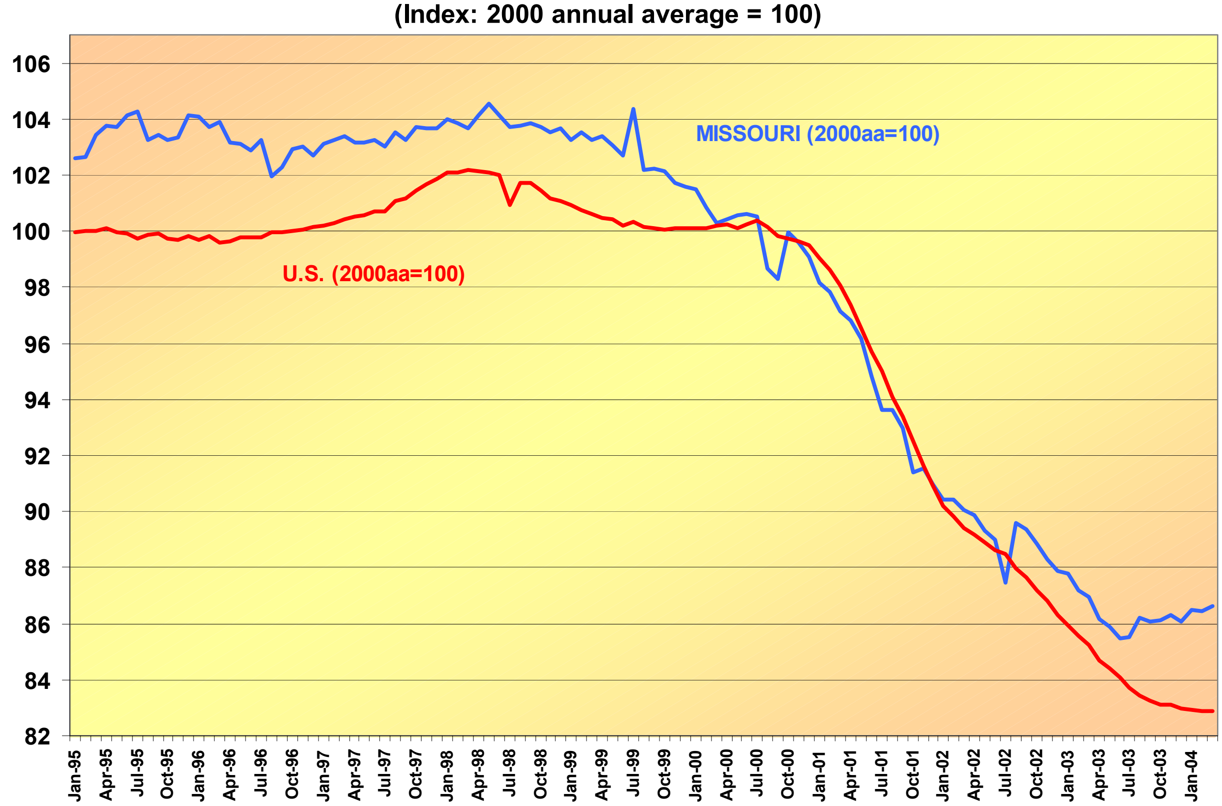
Gains occurred during the first half of 2002, as the economy seemed to be resuming growth. This situation did not last, however, as production began to slip again during the rest of the year, with only a brief respite in November. There was some monthly variation in production during the first half of 2003, but the index has been heading upward since June. The index decreased a little (0.2 percent) in March, following two strong months of growth (0.8 percent in January and 0.7 percent in February). This decrease was not particularly significant, as the decreased activity occurred in the utilities sector as a result of relatively good weather in March. Manufacturing activity was unchanged in March. The overall index, at 114.5 percent of its 1997 level, is 3.4 percent above its level in March 2003.

Manufacturing employment should move somewhat consistently with industrial production, although there could be some lag between increased production and rising employment. In particular, productivity gains have made it possible for manufacturers to increase output while holding employment constant or even shedding jobs.

The behavior of manufacturing employment over the past six years or so can be grouped into three time periods. Employment peaked in mid-1998, nearly three years before the beginning of recession. This was a troublesome sign for the economy, leading to slower economic and employment growth, which gradually affected other sectors. Employment then edged down until early 2001, which characterized the first period. The second period was marked by sharply falling employment and lasted from early 2001 through mid-2003. This was the period of the recession and its aftermath. Plummeting manufacturing employment contributed to the recession and held down growth following the official end of the recession.

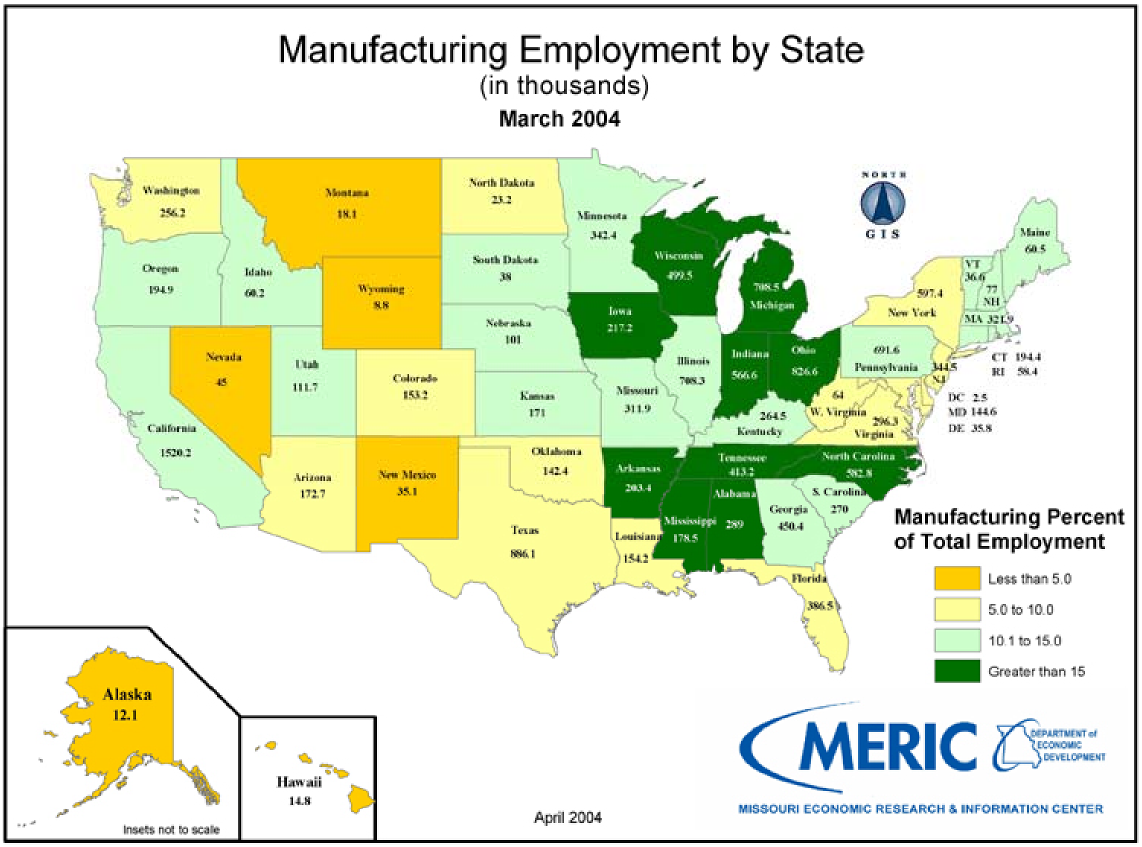
Since mid-2003, the manufacturing sector has begun to stabilize. Employment decreases began to slow at the national level, while Missouri manufacturing actually began to add jobs. This marked the beginning of stronger economic growth and what appears to have developed into relatively consistent overall employment growth. As production growth continues, factories should be adding jobs, with wider employment growth occurring as well.

U.S. AND MISSOURI MANUFACTURING EMPLOYMENT
(Index: 2000 annual average = 100)



Source: MERIC and U.S. Bureau of Labor Statistics

Despite recent improvements, manufacturing employment in Missouri decreased by 1.1 percent, or 3,500, from March 2003 to March 2004. Only nine states recorded manufacturing increases over the year. Generally, states such as Nevada and Alaska, with low levels of manufacturing employment, have seen the greatest increases. Manufacturing remains an important contributor to Missouri's economy, making up 11.7 percent of the state's total nonfarm employment as of March 2004. Indiana has the largest concentration of manufacturing employment at 19.6 percent.

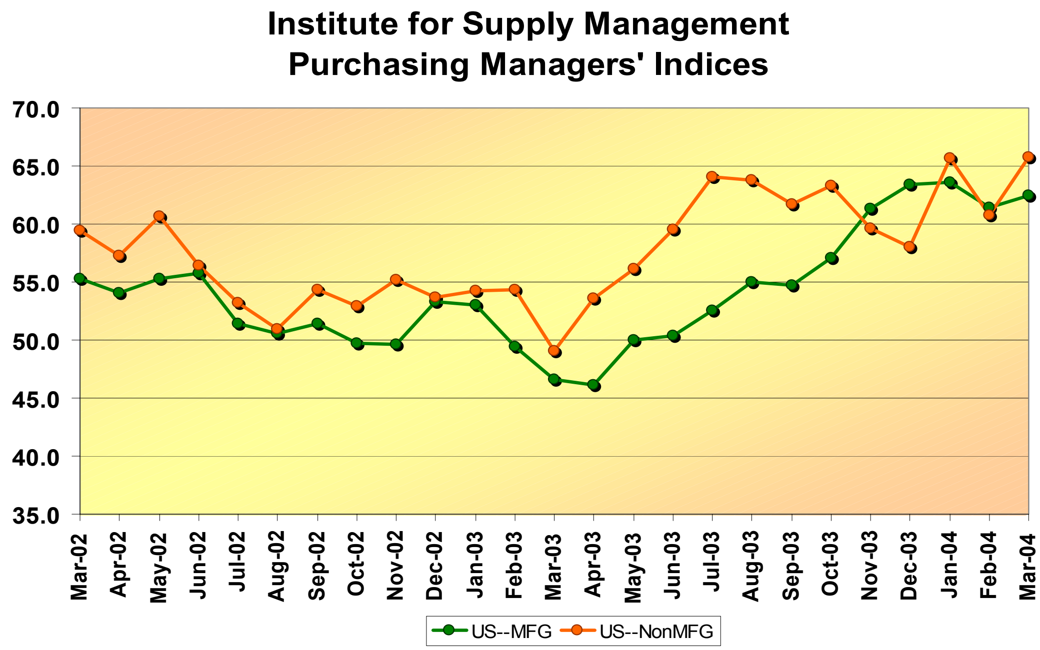


Source: U.S. Bureau of Labor Statistics

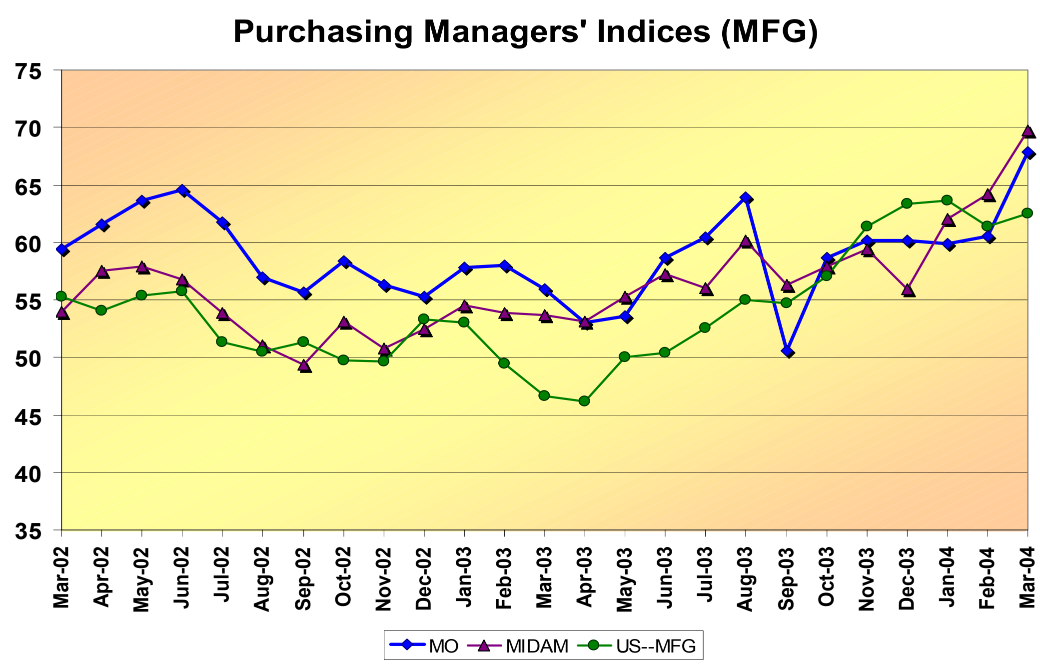
Purchasing Managers' Index

Missouri's Purchasing Managers' Index (PMI) reached its highest level since October 1994 in March. The state's PMI score increased to 67.9 from 60.5 in February according to the monthly *Mid-American Business Conditions Survey*, conducted by Creighton University, Omaha, NE. Missouri's score has remained above the critical 50 mark for 26 consecutive months.

Economists consider the index, which measures such factors as new orders, production, supplier delivery times, backlogs, inventories, prices, employment, import orders and exports, a key economic indicator. Typically, a score greater than 50 indicates an expansionary economy, while a score below 50 forecasts a sluggish economy for the next three to six months.



The national PMI for manufacturing industries increased to 62.5 in March from 61.4 in February. This index has been above 60 for five consecutive months. The nation's PMI for non-manufacturing industries improved by 5.0 points in March to 65.8. This exceeded economists' expectations of 62.3. Gains in the indices for the month offer continued signs of expansion in both the manufacturing and services industries and point to growing momentum in the nation's economy.



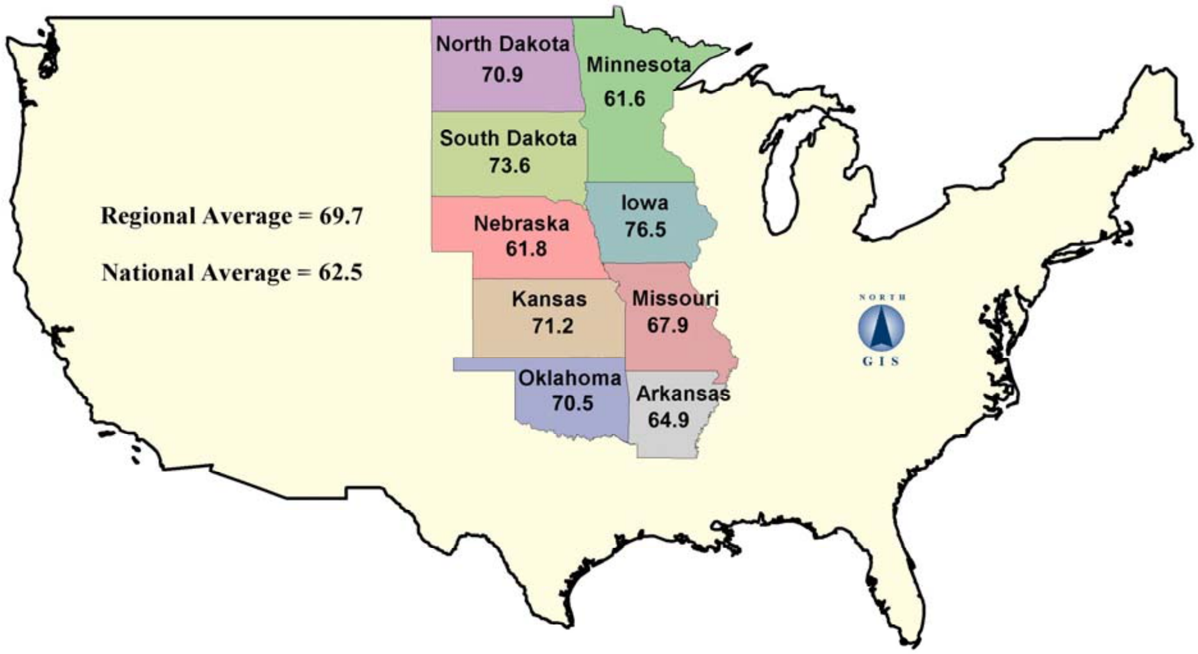
Source: Institute for Supply Management and Creighton University

Missouri's March PMI score was above 50 for the 26th straight month. The state had strong scores in new orders (76.4), production (75.5) and employment (60.3).

Other states in the survey included Iowa (76.5), South Dakota (73.6), Kansas (71.2), North Dakota (70.9), Oklahoma (70.5), Arkansas (64.9), Nebraska (61.8) and Minnesota (61.6).

Overall, the average for the Mid-America Region increased to 69.7 in March from 64.2 in February, reaching its highest level since the survey began in 1994.

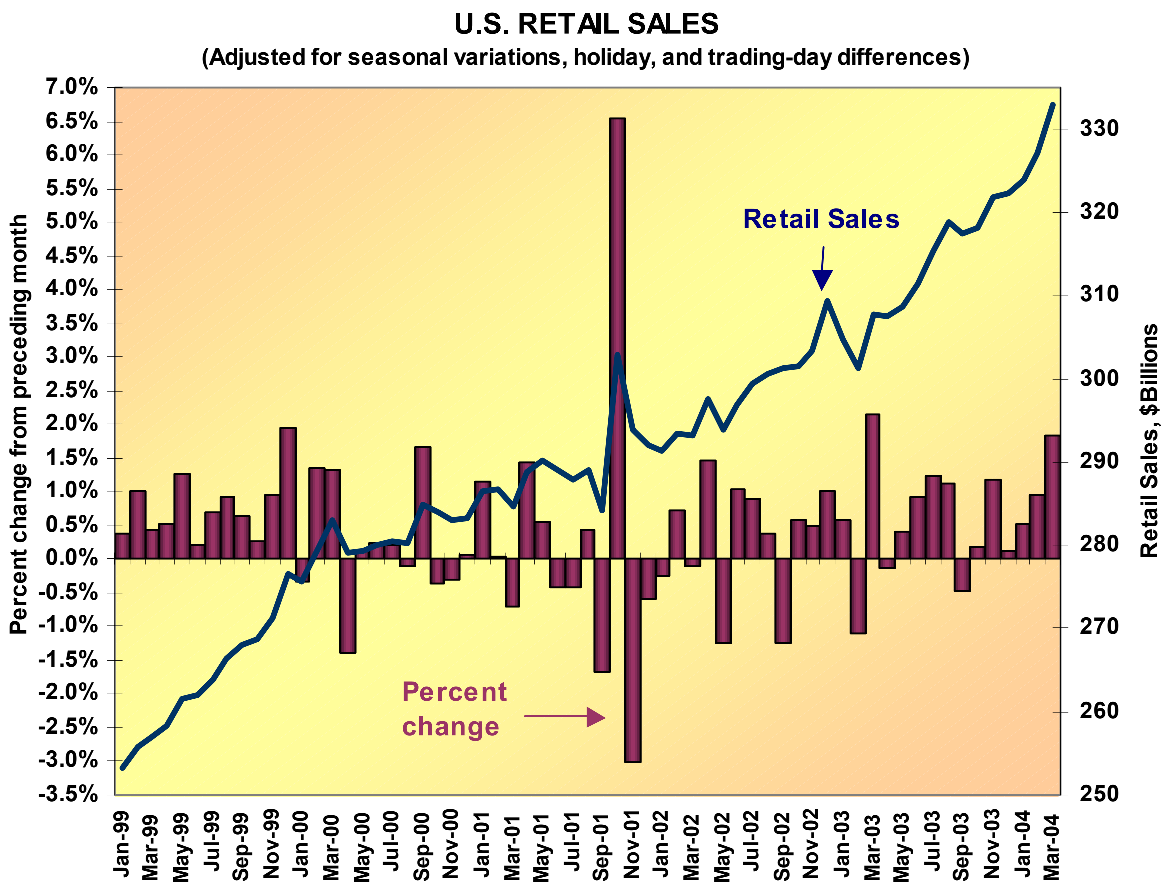
Mid-America Purchasing Managers' Index
March 2004



Source: Creighton University, Mid-American Business Conditions Survey

Retail Trade and Taxable Sales

There have been considerable swings in retail trade over the past two years or so, with weather, varying automobile sales and fluctuating gasoline prices contributing to these swings. There have been no back-to-back decreases in retail trade since early 2002. Since mid-2003, sales have moved more consistently upward, marking yet another economic indicator that seems to have firmed since then. Earlier on, tax rebates and cash from residential refinancing contributed to improving retail sales. Larger tax refunds than usual, the result of income tax cuts being retroactive to the beginning of 2003 while withholding was not reduced until the middle of the year, may be contributing to stronger sales this spring. Generally firming economic conditions should contibute to continuing improvement in retail trade, however.



Source: U.S. Census Bureau

While no specific retail sales data are readily available for Missouri, total taxable sales as measured by the Missouri Department of Revenue (DOR) can serve as a proxy measure. Retail sales account for approximately 70% of taxable sales in Missouri, with an additional 10% from wholesale trade, 10% from service industries such as hotels and amusement parks, 5% from communications industries, and 5% from other industries.

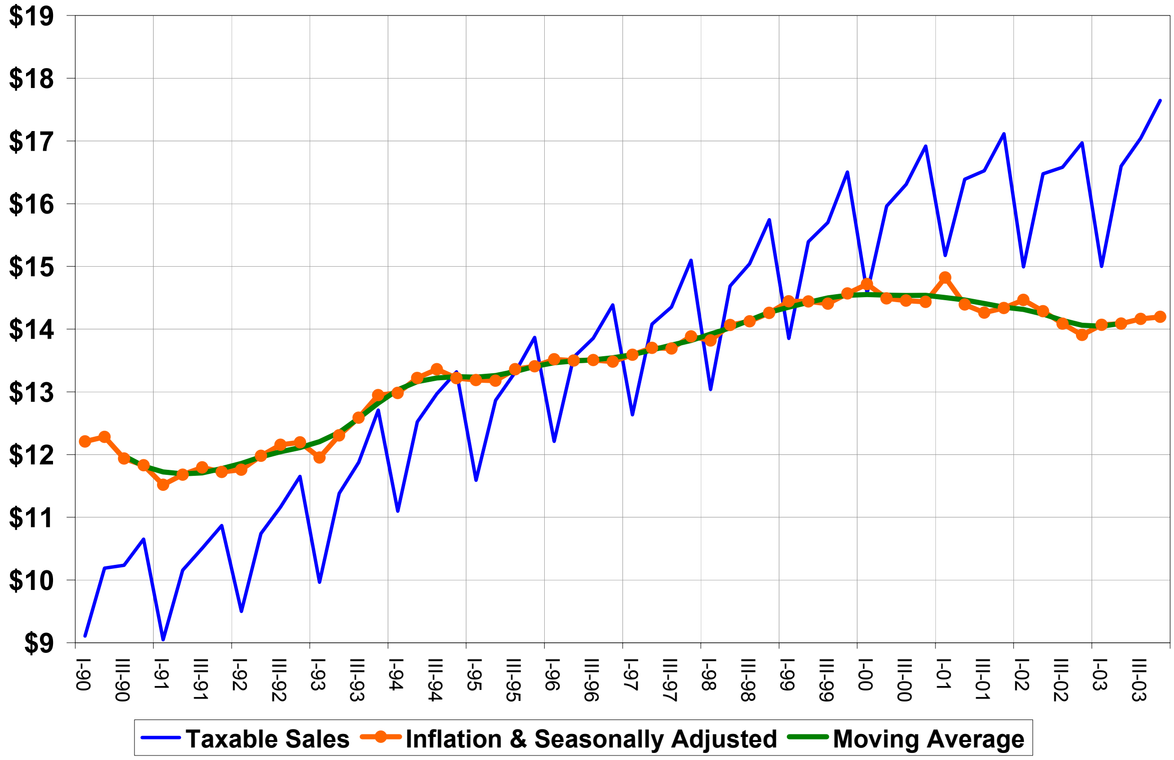
The Missouri Department of Revenue (DOR) recently released preliminary taxable sales estimates for the 4th quarter of 2003. Over this period, $17.6 billion in taxable sales occurred in the state, an increase of 3.99% in actual dollars from the same quarter of 2002. This represents the largest year-to-year increase in more than two years.

Quarterly Taxable Sales in Missouri				
	Taxable Sales ($B)	% Change from Year Ago	Inflation & Seasonally Adjusted ($B-96)	% Change from Year Ago (Adjusted)
1Q99	13.9	6.24%	14.4	4.50%
2Q99	15.4	4.83%	14.4	2.66%
3Q99	15.7	4.39%	14.4	2.00%
4Q99	16.5	4.84%	14.6	2.16%
1Q00	14.6	5.21%	14.7	1.91%
2Q00	16.0	3.68%	14.5	0.34%
3Q00	16.3	3.87%	14.5	0.35%
4Q00	16.9	2.49%	14.4	**-0.91%**
1Q01	15.2	4.13%	14.8	0.71%
2Q01	16.4	2.68%	14.4	**-0.67%**
3Q01	16.5	1.32%	14.3	**-1.34%**
4Q01	17.1	1.18%	14.3	**-0.68%**
1Q02	15.0	**-1.19%**	14.5	**-2.41%**
2Q02	16.5	0.53%	14.3	**-0.74%**
3Q02	16.6	0.34%	14.1	**-1.23%**
4Q02	17.0	**-0.86%**	13.9	**-2.99%**
1Q03	15.0	0.06%	14.1	**-2.73%**
2Q03	16.6	0.75%	14.1	**-1.39%**
3Q03	17.0	2.78%	14.2	0.55%
4Q03	17.6	3.99%	14.2	2.07%

Analysis by MERIC shows that if seasonal and inflationary effects are removed from the data, the state experienced year-over-year growth in taxable sales during the last two quarters of 2003. (Revisions to the 3rd quarter of 2003 data resulted in a year-over-year increase for that quarter.) Real year-to-year growth during the 4th quarter of 2003 stood at 2.07%.

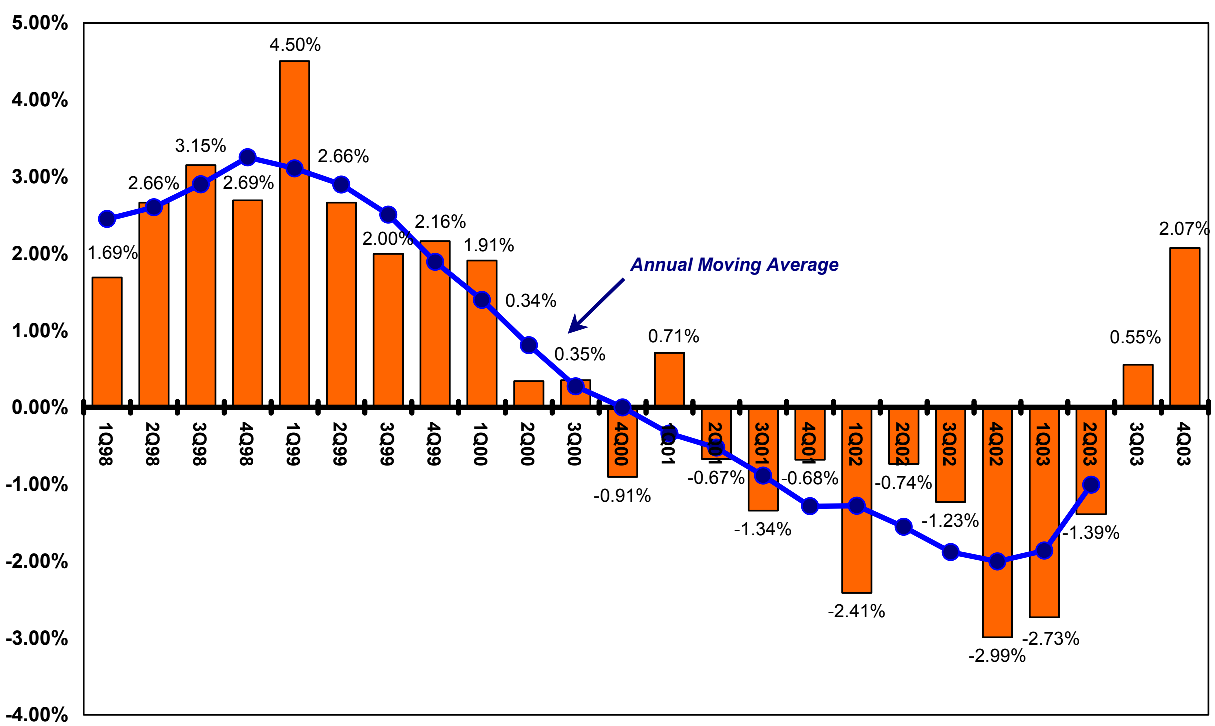
While the 4th quarter of 2002 represents a particularly low level for comparison, there does appear to be some sustained growth in adjusted taxable sales in Missouri, with four consecutive quarter-to-quarter increases in 2003. However, the $14.2 billion in adjusted taxable sales at the end of 2003 is still below many of the quarters from the recent past.

Quarterly Taxable Sales in Missouri



Year-to-Year Percentage Change in Taxable Sales

(Inflation and Seasonally Adjusted)



Missouri Business Activity

New Business Formations

Missouri experienced strong growth in new business formations during 2003. For the year, 14,930 new businesses were created in Missouri in nearly 100 different industries. The breadth of industries experiencing new business formations demonstrates the state's economic diversification, with eleven of Missouri's major industry sectors reporting more than 500 new businesses formed in 2003.

Other Services reported the most new business formations with 3,443. Other Services includes such industries as Private Household Businesses, Personal Services, and Repair and Maintenance Businesses. Construction, which includes various construction and specialty contractors, was the second largest super sector reporting 2,039 new businesses. Professional, Scientific and Technical Services was third with 1,388 new businesses formed in 2003.

NAICS Sector	Total	% of Total
Agriculture, Forestry, Fishing & Hunting	68	0.46%
Mining	16	0.11%
Utilities	4	0.03%
Construction	2,039	13.66%
Manufacturing	377	2.53%
Whole Sale Trade	1,134	7.60%
Retail Trade	1,203	8.06%
Transportation & Warehousing	612	4.10%
Information	253	1.69%
Finance & Insurance	628	4.21%
Real Estate & Rental & Leasing	552	3.70%
Professional, Scientific & Technical Services	1,388	9.30%
Management of Companies	61	0.41%
Administrative & Support	969	6.49%
Educational Services	122	0.82%
Health Care and Social Assistance	777	5.20%
Arts, Entertainment & Recreation	209	1.40%
Accommodation & Food Service	1,055	7.07%
Other Services	3,443	23.06%
Public Administration	20	0.13%
Total	**14,930**	

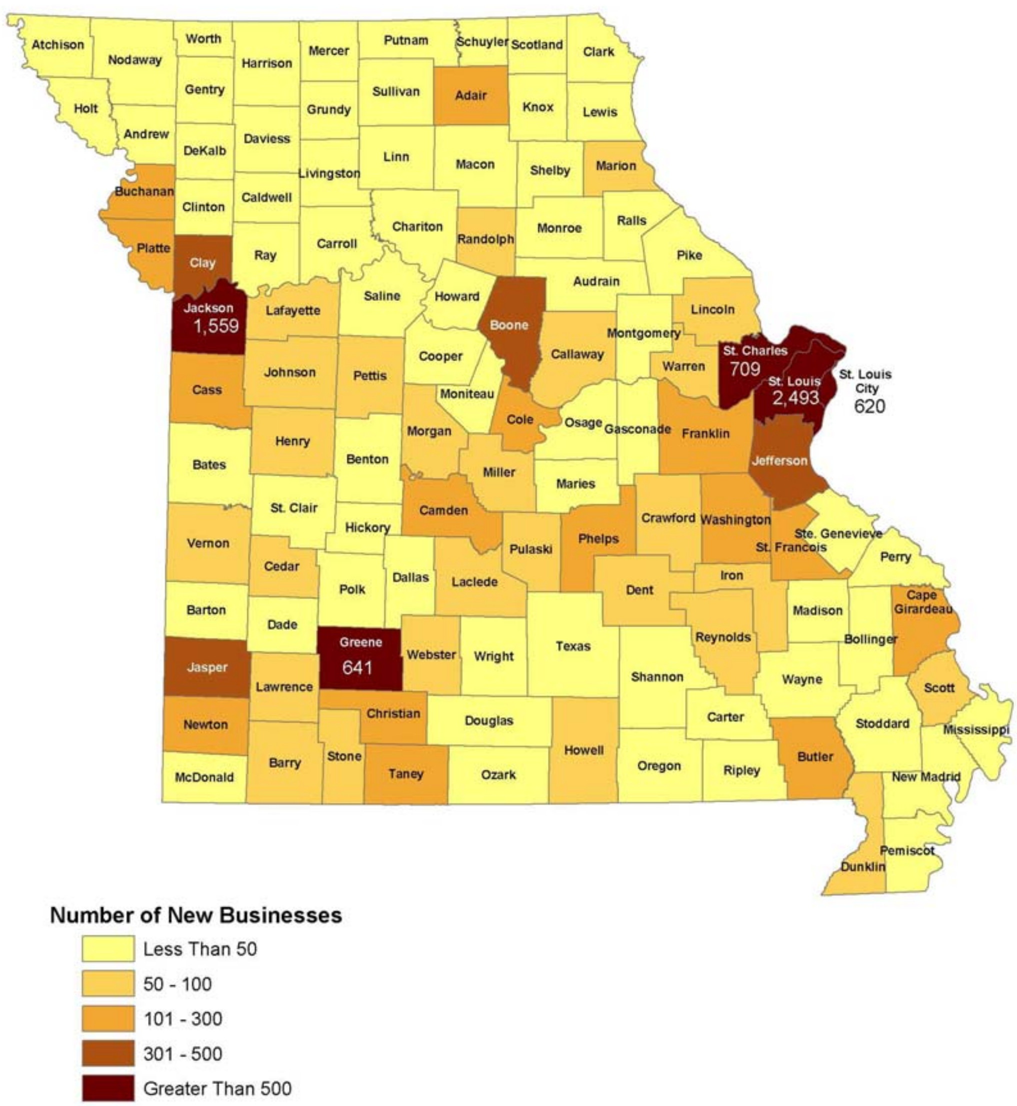
Source: MERIC Industry Coding Program using NAICS Supersectors

New business formations were dispersed throughout the entire state, with every county in Missouri experiencing multiple new business formations in 2003.

As one might expect, counties reporting the highest levels of new business formations were concentrated in metropolitan areas. St. Louis County reported the most new business formations with 2,493, followed by Jackson County (1,559), St. Charles County (709), Greene County (641) and St. Louis City (620).

Though the highest levels were concentrated in metro areas, many counties not associated with large metro areas saw new business formations ranging from 50 to 300. This is very encouraging for Missouri's economy.

New Business Creation by County
2003



Conclusions

The recession has officially been over for nearly 2 ½ years, and GDP growth has been very strong in the past three quarters. Recessionary conditions in Missouri have lifted as well. Employment has been increasing in the U.S. since last summer, and more states are seeing improvement. Missouri employment has increased more rapidly than national employment since last July. Improvement now seems to be broad enough and long-lasting enough to have achieved the characteristics of the sustained recovery that has been anticipated since the economic trough. The main clouds on the horizon now seem to be high petroleum prices and gloomy consumer sentiment perhaps resulting from the situation in Iraq.

This Report Prepared by

MERIC

DEPARTMENT of ECONOMIC DEVELOPMENT

MISSOURI ECONOMIC RESEARCH & INFORMATION CENTER

Missouri Economic Research & Information Center
Missouri Department of Economic Development
Harry S Truman Building, Room 580
Jefferson City, MO 65109
(573) 522-6261
http://www.MissouriEconomy.org